

Message Text

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ACTION AF-08

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TO SECSTATE WASHDC PRIORITY 1997

INFO AMEMBASSY KINSHASA PRIORITY

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AMEMBASSY LAGOS PRIORITY

AMEMBASSY LISBON PRIORITY

AMEMBASSY LONDON PRIORITY

AMEMBASSY LUSAKA PRIORITY

AMEMBASSY MOSCOW PRIORITY

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USMISSION USUN NY PRIORITY

USIA WASHDC PRIORITY

C O N F I D E N T I A L SECTION 1 OF 2 LUBUMBASHI 0092

E.O. 11652: GDS

TAGS: ECON, CG

SUBJECT: IMPACT OF INVASION OF SHABA UPON REGION'S ECONOMY

1. SUMMARY: THE MAJOR COMPANIES OF SHABA PROVINCE, MAIN PRODUCER OF ZAIRE'S TAX REVENUE AND FOREIGN EXCHANGE EARNINGS, HAVE THUS FAR NOT BEEN GREATLY AFFECTED BY INVASION. OCCUPIED AREAS OF LITTLE ECONOMIC IMPORTANCE TO REGION AS WHOLE. WHOLESALE AND RETAIL BUSINESS IN CITIES OF SHABA OUTSIDE OF OCCUPIED AREA, HOWEVER, ALREADY HARD HIT BY INVASION, WITH SALES DOWN 80 PERCENT AND SUPPLIES AT STANDSTILL. FALL OF KOLWEZI, WHICH IS GACAMINES' PRINCIPAL COOPER-PRODUCING SITE, COULD DRASTICALLY CHANGE SITUATION. GCM
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CURRENTLY HAS REASONABLE STOCKS OF MAIZE, DIESEL, AND GASOLINE AT KOLWEZI, BUT SPARE PARTS REPLENISHMENT ALREADY 3 WEEKS BEHIND SCHEDULE BECAUSE OF CANCELTION OF RESUPPLY FLIGHTS. CUTTING OF RR LINE BETWEEN TENKI AND FUNGURUME, WHICH NOT YET ACHIEVED BY INVADERS BUT WHICH QUITE POSSIBLE, COULD HALT HALF OF GCM'S EXPORTS. LONG-TERM NEGATIVE IMPACT OF INVASION ON REGION'S ECONOMY

COULD BE CONSIDERABLE, IN VIEW SIGNS ALREADY DEVELOPING OF LOSS OF CONFIDENCE IN SHABE FINANCIAL COMMUNITY. IN PARTICULAR SMTF COPPER PROJECT EXPECTED TO FACE GREATER DIFFICULTIES IN FINDING FINANCING TO COMPLETE PROJECT. END SUMMARY

2. SHABA PROVINCE PROVIDES NEARLY 75 PERCENT OF ZAIRE'S FOREIGN EXCHANGE EARNINGS AND OVER HALF OF THE GOZ'S TAX INCOME, MOSTLY FROM EXPLOITATION OF ITS RICH COPPER AND COBALT DEPOSITS. IT GOES WITHOUT SAYING THAT A PROLONGED HALT OR SIGNIFICANT SLOWDOWN IN MINE PRODUCTION OR EXPORTATION WOULD BE CATASTROPHIC FOR THE ECONOMY OF ZAIRE. SO FAR MAJOR REVENUE-PRODUCING AREAS UNTOUCHED BY FIGHTING, BUT APPROACH OF INVADERS TO KOLWEZI HAS BEGUN TO DISTURB SHABA'S ECONOMY.

3. AREAS OF WESTERN SHABA THUS FAR OCCUPIED OF ALMOST NO ECONOMIC SIGNIFICANCE TO REST OF ZAIRE. REGION CONTAINS LARGELY SUBSISTENCE AGRICULTURE, AND THE SMALL QUANTITIES OF MANIOC, CORN, AND PEANUTS GROWN AS CASH CROPS HAVE GONE WEST TO ANGOLA IN RECENT YEARS BECAUSE OF NEGLECT OF ROADS ON ZAIRIAN SIDE. ONLY ENTERPRISE OF CONSEQUENCE IN OCCUPIED AREA IS SOCIETE MINIERE DE KISENGE (SMK), A ZAIRIAN STATE-OWNED COMPANY WHICH MINES AND CRUSHES MANGANESE ORE. CONSULATE HAS RECEIVED SEVERAL REPORTS THAT SMK STILL OPERATING. IN FACT IN LAST 18 MONTHS SMK HAS BEEN BURDEN ON ZAIRIAN ECONOMY, SINCE EXPORTS OF MANGANESE ORE WERE HALTED BY CLOSING OF BENGUELA RR, AND IN ABSENCE OF SALES SMK HAS CONTINUED OPERA-
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TIONS, AT REDUCED LEVEL, THANKS TO REGULAR GOZ SUBSIDIES.

4. INVASION HAS ALREADY HAD ECONOMIC EFFECT IN BUSINESS OUTSIDE OCCUPIED ZONE. BANQUE COMMERCIALE ZAIROISE OF LUBUMBASHI REPORTS FALL-OFF IN DEPOSITS OF 80,000 ZAIRES PER DAY IN LAST WEEK, DUE TO DROP IN BUSINESS TURNOVER. SEVERAL LARGE WHOLESALERS OF CONSUMER GOODS IN LUBUMBASHI REPORT FALL-OFF IN SALES OF OVER 80 PERCENT SINCE BEGINNING OF INVASION. PRIMARY REASON SEEMS TO BE RETAILERS' FEAR OF PILLAGE BY TROOPS. ZAIRIAN RETAILERS WHO ACQUIRED PROPERTY DURING ZAIRIANIZATION THROUGH POLITICAL CONNECTIONS ARE PARTICULARLY FEARFUL OF REPRISALS BY ANTI-MOBUTU INVADERS. WHOLESALERS ALSO REPORT THAT NEAR TOTAL HALT OF NON-MILITARY VEHICULAR TRAFFIC ON MAJOR ROADS HAS RESULTED IN RAPID DRYING-UP OF SUPPLIES IN CITIES AND DISAPPEARANCE OF USUAL RETAIL CUSTOMERS FROM SMALLER TOWNS. THEY ALSO REPORT HALT IN SUPPLIES BY AIR FROM KINSHASA, FOR-

MERLY SOURCE OF LARGE AMOUNTS OF CANNED FOOD. NEGATIVE IMPACT ON BUSINESS IN KOLWEZI HAS BEEN EVEN GREATER. KOLWEZI DEPENDS ON ROAD TRANSPORT FROM LUBUMBASHI FOR FOOD AND MOST OTHER CONSUMER GOODS. WITH VIRTUAL CLOSING OF LUBUMBASHI-KOLWEZI ROAD TO TRAFFIC, SUPPLIES HAVE SLOWED TO TRICKLE. KOLWEZI CURRENTLY WITHOUT MEAT, AND OTHER SUPPLIES INCREASINGLY SCARCE. KOLWEZI RETAILERS REPORT RUNS ON STOCKS BY ANXIOUS CUSTOMERS. SUPPLY PROBLEMS ALSO HAMPERED BY ARMY TAKEOVER OF LARGE NUMBERS OF "COM-MERCANTS" TRUCKS.

5. EFFECT UPON MAJOR COMPANIES OF SHABA NOT YET AS GREAT. SNCZ, ZAIRE'S AILING RR, HAS HAD VERY LITTLE TRAF-FIC ON RAIL LINE BETWEEN KOLWEZI AND DILOLO SINCE CLOSING OF BENGUELA RR, SO ELIMINATION OF FREIGHT TRAFFIC ON THIS SECTOR HAS HAD MINIMAL EFFECT ON REVENUES. MAIN NEGATIVE IMPACT THUS FAR HAS BEEN LOSS OF 116 RR CARS, CONFIDENTIAL

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4 FUEL TANK CARS, AND 3 LOCOMOTIVES ON TRACK BETWEEN MUTSHATSHA AND DILOLO. GECAMINES HAS ALSO BEEN LITTLE AFFECTED THUS FAR BY INVASION. ARMY HAS COMMANDEERED 80 GCM SUPPLY TRUCKS, AND ALL GCM JET FUEL, BUT THUS FAR HAS NOT REQUISITIONED CRITICAL SUPPLY OF DIESEL.

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C O N F I D E N T I A L SECTION 2 OF 2 LUBUMBASHI 0092

6. THOUGH IMPACT THUS FAR UPON MAJOR COMPANIES MINIMAL SITUATION COULD CHANGE DRAMATICALLY IF KOLWEZI FALLS OR IS EFFECTIVELY BLOCKADED. GCM OFFICIALS FEEL COMPANY COULD CONTINUE OPERATING UNDER OCCUPATION, AS IT DID IN 1960'S, BUT THIS OF COURSE DEPENDENT UPON OCCUPIERS' CONSENT. GCM-KOLWEZI PRODUCES ABOUT 70 PERCENT OF COMPANY'S COPPER ORE AND OVER 50 PERCENT OF ITS METALLURGICALLY TREATED COPPER. AT MOMENT GCM-KOLWEZI HAS 66 DAY STOCK OF MAIZE (STAPLE OF ZAIRIAN DIET), 45 DAY STOCK OF DIESEL, AND 27 DAY STOCK OF GASOLINE. ALL ARE SUPPLIED FROM SOUTH BY RAIL AND ABSENCE ANY OF THESE ITEMS WOULD HALT PRODUCTION. LAST CHARTER JET BRINGING SPARE PARTS ARRIVED MARCH 10. LACK OF JET FUEL HAS HALTED THE USUAL 3-4 CONFIDENTIAL

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FLIGHTS A WEEK WHICH REPLENISH GCM'S SPARE PARTS INVENTORY, AND BREAKDOWN OF NUMBER OF SUCH PARTS COULD SERIOUSLY DAMAGE PRODUCTION. LOSS OF 80 TRUCKS HAS FORCES GCM TO USE REMAINING TRUCKS DOUBLE TIME, WHICH EXPECTED TO AFFECT ADVERSELY VEHICLE MAINTENANCE AND IMPACT NEGATIVELY ON PRODUCTION LATER IN YEAR. IF INVADERS SHOULD REACH RR LINE BETWEEN TENKE AND KAMINA, EAST OF KOLWEZI, EXPORT ROUTE USED FOR PERHAPS 50 PERCENT OF GCM'S COPPER, EXPORTS WOULD BE ENDANGERED.

7. LONG-TERM DAMAGE TO SHABA ECONOMY, PARTICULARLY IN MINING AREA, COULD BE CONSIDERABLE IF WAR DRAGS ON. THE FUTURE OF SMTF, SAN INTERNATIONAL CONORTIUM FORMED TO EXPLOIT COPPER DEPOSITS IN TENKE-FUNGUREME AREA, LOOKS EVEN GLOOMIER THAN BEFORE. THE PROJECT WAS SUSPENDED IN JANUARY 1976 BECAUSE OF FINANCING PROBLEMS, AND THE SEARCH FOR ADDITIONAL FINANCING TO FUND HUGH COST OVERRUN IS EXPECTED TO BECOME MUCH MORE DIFFICULT IF BANKERS PERCEIVE THREAT OF POLITICAL INSTABILITY IN SHABA. GCM'S \$460,000,000 EXPANSION PROGRAM ALL OF WHICH LOCATED AT KOLWEZI, DUE FOR COMPLETION IN LATE 1976, WILL UNDOUBTEDLY SLOW DOWN, AND FINANCING PROBLEMS COULD SERIOUSLY CURTAIL PROGRAM (THOUGH GCM OFFICIALS CONTINUE TO EXUDE CONFIDENCE AND PRETEND NOTHING IS HAPPENING). UNDERSTANDABLY, BANKS IN KINSHASA ALREADY SHOWING SIGNS OF RELUCTANCE TO

EXTEND REGULAR SHORT-TERM CREDITS TO RELIABLE
CLIENTS IN SHABA FOR FEAR OF NON-PAYMENT. IT WOULD NOT
BE SURPRISING TO SEE LARGE INTERNATIONAL BANKS FOLLOW
THEIR EXAMPLE, WHICH COULD HAVE SERIOUS LONG-TERM CONSEQUENCES FOR INVESTMENT IN ZAIRE'S MOST HIGHLY INDUSTRIALIZED REGION. CRUCIAL QUESTION AT THIS POINT SEEMS TO BE HOW LONG WAR WILL CONTINUE, AND HOW LONG SUBSEQUENT POLITICAL INSTABILITY MIGHT LAST, BUT IT CLEAR THAT SOME DAMAGE HAS ALREADY BEEN DONE.
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